The 87th Annual Report of the

Ontario Northland Transportation Commission

for the year ending December 31, 1987

Ontario

Province of Ontario
Honourable David Peterson
Premier
Honourable Rene Fontaine
Minister, Northern Development

Ministry of
Northern Development
and Mines

ONTARIO

The Honourable Lincoln M. Alexander
P.C.,Q.C.,C.St.J.,B.A.
Lieutenant-Governer of the Province of Ontario

May it please your Honour:

I beg leave to present the 87th annual report of the Ontario Northland Transportation Commission for the year ending December 31, 1987.

Respectfully submitted,

Rene Fontaine
Minister of Northern Development

1988

Ontario Northland

The Honourable Rene Fontaine
Minister of Northern Development
Parliament Buildings
Toronto, Ontario

Sir:

I beg to submit the annual report for the year 1987 of the Ontario Northland Transportation Commission, and I have the honour to be, Sir,

Yours faithfully,

J.W. Spooner
Chairman, ONTC

1988

Ontario Northland Transportation Commission

J.W. Spooner, Chairman, Timmins

M.P. Boreham, Commissioner, Elliot Lake ... retired July 31, 1987

G.J. Gagnon, Commissioner, Hearst

R. Motlong, Commissioner, Sioux Narrows

W.B. Brayford, Commissioner, New Liskeard

R.G. Brisson, Commissioner, Cochrane

R.S. Lucenti, Commissioner, North Bay

M.D. Sinclair, Commissioner, Sudbury

E.T. Sutherland, Commissioner, Moose Factory

W.A. Keller, Commissioner, Mindemoya ... appointed December 17, 1987

Principal Officers

P.A. Dyment, General Manager

D.E. MacDougall, Assistant General Manager

K.J. Moorehead, Senior Operating Officer - Rail

K.J. Wallace, Senior Officer, Marketing and Passenger Services

R.S. Hutton, Director, Telecommunication Services

E. Marasco, Senior Director, Passenger Services

T. O'Connell, Counsel

Corporate Profile

An Historical Perspective

In 1901, when workers started laying track from North Bay to New Liskeard, they didn't realize that the railway they were building was not only leading to the resource-rich North, but to the creation of a diversified transportation and communications giant, the Ontario Northland Transportation Commission.

From its meager origins as a one-line railway to its current existence as a land-water-air-telecommunications giant, Ontario Northland has constantly entwined its growth and development with that of Northeastern Ontario.

As Cobalt's rich silver discoveries quickly followed the path of the railway, it pushed out to service other new communities -- Timmins, Kirkland Lake, Cochrane -- helping to develop the potential wealth of the new region.

Ontario Northland, once known as the Temiskaming and Northern Ontario Railway (T&NO), reached its northern terminus at Moosonee in 1932. The end of railway expansion permitted the company to focus on other areas of development in the region.

The telegraph service, built in response to the needs of the companies and the Northeastern Ontario communities it served, became a telecommunications network. Highway transport services, bus and truck, were established to complement rail service. Ferry boat services were started and in 1973 a small airline.

Bringing the North together for business and pleasure has been an important task of Ontario Northland from the beginning, through to the present, and into the future.

Today the Ontario Northland Railway continues to be the most visible component of the ONTC. The railway's major role is, as in the past, the transportation of minerals and forest products from the resource-rich North to southern Ontario.

The ONR's passenger services, such as the Northlander, the Northland, the Polar Bear Express and the Little Bear, also continue to play a vital role, uniting the people of the region, providing a connection to the south and bringing tourists to the North.

Supplementing rail services are Ontario Northland's Transport Services and Passenger Services, moving freight and people by highway to where rail does not go.

Ontario Northland buses provide regular scheduled service between Northern communities, as well as charter and tour services across the North and Canada. Transport Services offers customers a comprehensive short or long-distance shipping, competitive with national companies.

Ontario Northland's Telecommunications system offers vital links in Northeastern Ontario with Bell Canada, Northern Telephone Limited, the Telsat Satellite, and its own local telephone networks.

Operating specialized watercraft on diverse bodies of water, ONTC's Marine Services has become an integral part of the communities it serves on Georgian Bay, Lake Nipissing and James Bay. The M.S. Chi-Cheemaun, the M.V. Chief Commanda II and the M.V. Manitou Island II meet their unique needs.

norOntair, Ontario Northland's newest division, provides fast reliable air service to 21 Northern communities using the most efficient aircraft available, including the Canadian-built DASH 8.

General Manager's Report

The Ontario Northland Transportation Commission's development and operation is fully integrated with the economy of Northern Ontario and the region's people.

Virtually all residents, business and tourists in Northern Ontario are impacted upon in some way by some or all Ontario Northland services -- telecommunications, rail and highway freight, rail and bus passenger, air -- during the year.

More than 1,500 ONTC employees work and live in the region, contributing to the well-being of the North personally and professionally in communities from North Bay in the south to Moosonee in the north, from New Liskeard in the east to Kenora in the west.

To say that Ontario Northland is a northern company, operated by northerners to serve northerners, is not only an apt description of the ONTC but a matter of great pride for us.

Our long term commitment to the region and the people we serve was renewed during the past year with substantial investments and improved services.

Construction on the $9.5 million senior citizens' apartment complex in North Bay neared completion in 1987. The 138-unit building featuring amenities such as swimming pool, sun decks, doctor's office and guest accommodation, is expected to be filled by a substantial number of ONTC retirees, as well as other seniors when fully occupied in 1988. The complex is an investment of the Pension fund.

Construction started on a new $2 million intercity rail / bus terminal in Englehart. The existing station has been virtually demolished with only a small portion remaining to serve as a waiting room and operating area. Remaining operations have been temporarily relocated in the former agent's residence until the new terminal opens in 1988.

A contract was awarded and construction started on a new stores and maintenance building in Englehart to be completed in June 1988, while new diesel storage tracks were installed in this important community's rail yards.

Also awarded and currently underway was a $650,000 contract to renovate Timmins Station. This work will include creating undercover bus loading for buses, upgraded passenger and office facilities and retail rental space.

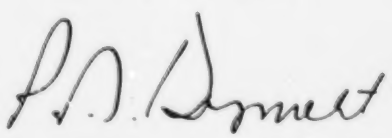
A new 4,000-square-foot Express Terminal, built at a cost of $490,000, was opened in Cochrane in November 1987.

In the telecommunications field, Ontario Northland continued extensive work on a fibre optics link, and increased its financial support of Northern Telephone Limited's plan to install state-of-the-art technology in five northern communities. Sophisticated digital telecommunications equipment was also installed in Moose Factory and New Liskeard at a cost of more than $2 million.

The planned conversion of 20 GO Transit commuter rail cars to intercity coaches continued to go smoothly with all work being done in our shops. The first cars will be completed, tested and placed in service in 1988.

Projects for the new year include construction on a $2.5 million intercity rail / passenger terminal in North Bay, the first Ontario Northland-owned terminal in the city of its origins. Also in North Bay the ONTC is involved with the other railways and the city to consolidate rail operations in ONR facilities.

Respectfully submitted,



Peter Dyment
General Manager

Review of Operations

Telecommunications

The Telecommunications Branch provides long distance services, WATS, 800 Service, private line voice and data, CBC program and video, telex and telegraph services to Northeastern Ontario, as well as local telephone service to Moosonee, Moose Factory and the Temagami and Marten River areas.

In 1987 the Telecommunications industry experienced unprecedented changes: an average reduction in message toll rates of 25 percent was implemented in Ontario Northland's serving territory, OUTWATS rates were restructured and reduced by 15 percent, and the Federal Government announced that it would begin levying a 10 percent tax on certain telecommunications services, including message toll, in 1988.

Message volumes increased at unparalleled rates due to the price reductions and a healthy economic climate. The average message growth in 1987 over 1986 was 15 percent. The branch continued its past trend of efficient operations as expenses increased only 1.8 percent despite the large traffic volume increase.

Telecommunications' commitment to Northeastern Ontario communities was further demonstrated by the completion of two major projects at a total cost of $2.2 million. In Moose Factory, the local exchange was replaced with modern digital equipment, and in New Liskeard, a digital toll switch was installed to handle long distance messages from the Tri-town area.

Continued progress was made on extending digital microwave facilities from Smooth Rock Falls to Kapuskasing and on a four-phase plan to link Timmins and North Bay with a fibre optic cable. The first phase of the fibre optic link will be completed and the second phase started in 1988. Both projects are part of a long term plan to extend digital facilities from North Bay to Hearst.

Ontario Northland also fulfilled its commitment of $3 million to help Northern Telephone Limited install digital technology in the Tri-town, Earlton and Latchford areas, and gave the northern utility an additional $500,000 subsidy for 1987.

In a major contract reached in 1987, Telecommunications agreed to provide ICG Utilities a state-of-the-art private radio system extending from Calstock through to Temagami. The system was designed and installed, and will be maintained by the Branch.

Several innovations were brought to customer relations. In keeping with industry standards, local telephone rates were unbundled, allowing customers to provide their own equipment. Also order processing and accounts receivable systems for the local telephone services were automated resulting in improved customer services and more timely billing.

In its continuing quest to provide the most sophisticated and efficient technology possible, Telecommunications has made a commitment to offer enhanced Datapac and 800 Services in 1988 and continue work on the northern fibre optics route.

Passenger Services

The Passenger Services Division is responsible for overseeing all land passenger services of the ONTC and through its Tourism Development Branch plays a key role in helping to bring tourists to the region.

The passenger services include scheduled, charter and tour bus operations, all trains under ONTC jurisdiction, station facilities, Hannah Bay Goose Camp, passenger marketing and providing a high level of customer service.

Ridership on the Polar Bear Express remained at 1986 levels with more than 20,000 tourists. This is an improvement from the previous year when ridership declined 5%. The challenge for 1988 will be to recover the lost ridership and ensure significant growth for the future.

Hannah Bay Goose Camp experienced another excellent year with 128 bookings, but unfortunately last minute cancellations prevented 1987 from being perhaps the best year ever. As witnessed by the number of return hunters the operation of the camp continues to be first-rate.

Rail passenger ridership increased overall in 1987, despite a decline of approximately 5% experienced by the Northland night train. The loss was offset by gains of 8% by the regular Cochrane-Moosonee train and 5% by the Northlander. Moderate ridership increases are projected for all trains in 1988.

The North American bus industry, including the ONTC, continued to experience an overall decline in scheduled service ridership in 1987. Scheduled service ridership declined by approximately 6.5%. However, tours and charter ridership increased by more than 50%. Bus Parcel Express also experienced an increase in volume. The tour and charter increases contributed to a 2.5% gain in overall revenues, while overall expenses were cut by 4%.

While this is a considerable financial improvement in bus operations, there continues to be a significant challenge to bring it back to a sound financial footing. Competition from a deregulated airline industry and from private automobiles continue to place the bus industry in difficulty. There are, however, encouraging signs that regular ridership will stabilize in 1988 and tour, charter and PBX will remain strong. Therefore there is optimism that 1988 will be a turnaround year for the industry.

ONTC will continue its policy of reviewing each bus route and identifying areas of additional savings.

Bus maintenance operations in Timmins moved to a new facility in 1987, while renovations at the Timmins Station and construction of a new station in Englehart were started in 1987 and should be complete by the spring of 1988.

Future plans include a $2.5 million rail / bus passenger terminal and bus maintenance facility in North Bay, a new bus station in Kirkland Lake, and major renovations to Cochrane, Temagami and Iroquois Falls stations.

Of special interest in the Passenger Services Division is the New Passenger Services Branch, a special unit established in 1985 to co-ordinate the work of various departments involved in a four-year, $24.5 million passenger cars construction project. This includes the reconstruction of 20 GO Transit rail cars and the construction of Auxiliary Power Units (APUs).

When completed these cars will replace our existing fleet of conventional cars on the Moosonee Branch, which are 40 to 50 years old, and will be compatible with new equipment which may be acquired for the main line service. The refurbished cars will have state-of-the-art systems and components including new interiors, new electrical, heating and air conditioning systems and other sub-systems.

The APUs, which provide electrical power to the train, will replace the last vestiges of steam on the ONTC network. The construction of the APUs and reconstruction of the cars is being done in the North Bay shops, while the stripping of the original GO cars is done in ONTC shops in other northern communities.

Three cars and one APU are expected to be tested in the fall of 1988 and in regular service between Cochrane and Moosonee by year-end.

Rail Services

ONTC's Rail Services provide the infrastructure for the railway and operate and maintain the trains used to transport freight and people and includes the Engineering, Mechanical and Transportation Departments.

Safe and efficient operations and regular upgrading of plant received continued stress.

Major projects to keep facilities safe and up-to-date included:

- Replacing 45,000 track ties and 6.5 miles of worn main line with new continuous welded rail.
- Rail grinding was completed on 86 miles of track.
- A five-span concrete bridge was partially rebuilt and a two-span concrete bridge built in 1937 was replaced with a steel one.
- In Cochrane a new Rail / Truck Express Terminal and a track relocation project to provide improved maintenance facilities were completed.
- A major track construction job at Englehart was completed to allow for the relocation of the Material Yard from North Bay and to provide secure storage.
- Hot box detection equipment, to determine wheel and axle conditions, was upgraded and a 1986 program to replace public crossing signs with reflectorized red and white crossing signs was completed.

New machinery placed in repair shops included an overhead crane, a traction motor machine and a half-inch capacity shear.

Two 3,000-horsepower locomotives were completely overhauled and modifications to 1.5 1800 Series locomotives to improve winter operation were made.

norOntair

ONTC was given the task in 1973 to operate norOntair. The original mandate was to set up an infrastructure to operate an air line, to set standards and determine fares and schedules.

The objectives of the government at that time were to reduce isolation of northeastern Ontario, enhance the industrial and commercial development of the area and to strengthen private carriers.

In 1987, norOntair saw a ridership increase of 3.1% despite heavier competition. This is the first year since 1981 that over 100,000 passengers were carried in one year. This led to an increase of revenue in 1987 of $1 million over the previous year. As expenses remained approximately the same for both years, a 26.08% decrease in losses was incurred over 1986.

The completion rate for all flights in 1987 was 96.65%.

In 1987, norOntair continued to serve 21 communities with six Twin Otters, one Navajo and one Dash 8.

A request for proposals was sent out in 1987 to ascertain if the private sector was willing and prepared to provide air service to at least some of the communities served by norOntair. It was stated at that time that, in reviewing proposals, a strong emphasis would be placed on considering the needs of individual communities and norOntair personnel.

Proposals have been received and reviewed and an announcement is expected by mid-1988.

Marine Services

Marine Services -- the M.S. Chi-Cheemaun on Georgian Bay, the M.V. Chief Commanda II on Lake Nipissing, and the M.V. Manitou Island II on James Bay -- continued their record of efficient service in 1987.

A passenger / vehicle ferry connecting Tobermory and South Baymouth on Manitoulin Island, the M.S. Chi-Cheemaun was forced for the first time in 13 years of operation to turn away walk-on traffic. On three occasions in 1987 the 638-passenger ferry was filled to capacity, requiring this extraordinary measure to be taken.

Though traffic was lighter than usual in early summer, volumes later increased, resulting in a slight overall increase for the year. The number of vehicles carried increased to 84,050 in 1987 from 82,442 in 1986, and passengers to 256,570 this year from 242,308 the previous year.

In North Bay the tourist cruise ship M.V. Chief Commanda II provided more efficient service, carrying more passengers per trip. The total number of trips operated was less than in previous years, but the number of passengers carried was down only slightly at 18,567.

Renovations to the interior of the M.V. Chief Commanda II continued in 1987, and a main engine was overhauled as part of the ship's continuous maintenance program.

Traffic increased substantially on the M.V. Manitou Island II, a passenger / cargo ferry operating between Moosonee and Moose Factory on James Bay. A 39% jump in revenue was due mainly to the transport of students.

Freight Services

Ontario Northland's Freight Services include rail freight traffic handled by the ONR and highway freight carried by the recently established Transport Services.

Rail traffic experienced marginal changes in 1987 as tonnage slipped 2.4% and revenues followed by 2.8%. Approximately 5 million tons were carried to produce $42.5 million in revenue.

The mining industry accounted for 78% of the total freight. Total mining industry tonnage was down 3%. A reduction in ores, concentrates, zinc metals and sulphuric acid shipments contributed to the decrease as did northbound shipments of Petroleum Products. The latter decreased substantially due to major policy changes within that industry in the marketing of these products.

Forest industry products accounted for 19% of the total, up 3% from 1986, resulting from slight improvements in volumes of newsprint, woodpulp, pulpwood and related products.

Strong metal prices and new distribution warehouses may assist in increasing our market share of these products. Newsprint and woodpulp markets are expected to remain strong and ongoing efforts in various areas of the forest industry sector to secure new blocks of traffic should result in increased volumes in the near future.

Given the limited growth potential in the geographical area served and the effects of the National Transportation Act 1987, coupled with increasingly aggressive truck competition, future trends remain uncertain over the longer term.

Transport Services, formed in 1986 with the integration of Star Transfer and Express Services, demonstrated significant improvement in 1987 despite a continued loss.

Trucking-only revenue increased 13.8% to slightly more than $4 million, matching a 14% increase in weight carried. Total revenues jumped 8.4% to $5.4 million. This resulted in a bottomline improvement of 45.1%.

Customer service was upgraded with the acquisition of six new tractors, two medium-duty trucks and a long-box van. A microcomputer was installed in Timmins to centralize and speed customer billing. Ordered for 1988 were six additional tractors and 14 quad-axle trailers.

Transport Services employees maintained their excellent safety record with no lost-time injuries reported for the second consecutive year.

Financial Statements

Ontario Northland Transportation Commission
CONSOLIDATED BALANCE SHEET
as at December 31, 1987

	Assets	1987 $	1986 $
Current Assets	Cash and short term investments	2,369,755	11,294,485
	Accounts receivable	16,915,071	14,571,826
	Due from Contributory Pension Fund (note 7)	7,583,410	526,429
	Materials and supplies	10,554,808	6,078,294
	Prepaid expenses	628,633	165,075
		38,051,677	32,636,109
Long Term Investments - at cost	Government bonds (market value $30,765,000; 1986 - $26,935,000)	29,674,531	23,865,029
Other Assets - at cost	Self-insurance fund (note 3) (market value $2,137,000; 1986 $2,009,000)	2,128,279	1,835,349
	Bus franchises	297,679	297,679
	Investment in Telesat Canada	150,000	150,000
	Deferred Pension Charge (note 2)	2,694,724	-
		5,270,682	2,283,028
Investment in Property - at cost less accumulated depreciation	(schedule 1)	176,513,976	174,072,188
		249,510,866	232,856,354

See accompanying schedules and notes to consolidated financial statements.

Approved on behalf of the Commission:

J.W. Spooner
Chairman

P.A. Dyment
General Manager

Ontario Northland Transportation Commission
CONSOLIDATED BALANCE SHEET
as at December 31, 1987

Liabilities and Equity		1987 $	1986 $
Current Liabilities	Accounts Payable and accrued charges	19,823,779	17,518,597
Deferred Revenue	(note 5)	1,272,956	1,447,824
Provision for Self Insurance	(note 3)	2,128,279	1,835,349
Long Term Debt	Loan from Province of Ontario non-interest bearing	35,207,935	35,207,935
Province of Ontario Equity	Contributed surplus	20,772,165	22,832,714
	Retained income	170,305,752	154,013,935
		191,077,917	176,846,649
		249,510,866	232,856,354

Ontario Northland Transportation Commission
CONSOLIDATED STATEMENT OF INCOME
for the year ended December 31, 1987

		1987 $	1986 $
Operating Revenues	Commercial (schedule 3)	90,285,299	93,161,888
	Non-Commercial (schedule 4)	15,595,650	13,928,905
Total operating revenues		105,880,949	107,090,793
Operating Expenditures	Commercial (schedule 3)	80,290,330	78,513,852
	Non-Commercial (schedule 4)	37,685,672	38,345,441
Total operating expenditures		117,976,002	116,859,293
Loss from operations before the following		12,095,053	9,768,500
Investment Income	Interest expense	(203,337)	(200,048)
	Interest earned	3,531,632	3,279,755
	Gain on sale of bonds	284,640	278,765
Net investment income		3,612,935	3,358,472
Special payment to pension fund	(note 2)	-	2,209,037
Net loss before Government reimbursement		8,482,118	8,619,065
Government reimbursement (schedule 2 and note 4)		24,773,935	26,395,105
Net income for the year		16,291,817	17,776,040

See accompanying schedules and notes to consolidated financial statements.

Ontario Northland Transportation Commission
CONSOLIDATED STATEMENT OF RETAINED INCOME
for the year ended December 31, 1987

	1987 $	1986 $
Balance, beginning of year	154,013,935	136,237,895
Add net income for the year	16,291,817	17,776,040
Balance, end of year	170,305,752	154,013,935

See accompanying schedules and notes to consolidated financial statements.

Ontario Northland Transportation Commission
CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS
for the year ended December 31, 1987

		1987 $	1986 $
Balance, beginning of year		22,832,714	24,752,416
Add:	- norOntair aircraft and associated equipment	20,690	90,014
	- Capital expenditures of The Owen Sound Transportation Company, Limited	33,405	215,409
		22,886,809	25,057,839
Less:	depreciation charges for the year	2,114,644	2,225,125
Balance, end of year		20,772,165	22,832,714

See accompanying schedules and notes to consolidated financial statements.

Ontario Northland Transportation Commission
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
for the year ended December 31, 1987

		1987 $	1986 $
Operating Activities	Cash provided from (used in) operations (see below)	(8,799,916)	916,670
	Government reimbursement	24,773,935	26,395,105
		15,974,019	27,311,775
Financing Activities	Capital reimbursement from the Province	54,095	305,423
Investing Activities	Net investment in fixed assets	(13,038,074)	(14,484,243)
	Purchase of bonds	(6,913,125)	(5,854,863)
	Proceeds from sale of bonds	1,504,750	2,168,000
	Proceeds from sale of fixed assets	550,586	381,069
	Contributory Pension Fund advances	(7,056,981)	(526,429)
		(24,952,844)	(18,316,466)
(Decrease) increase in cash and short term investments during the year		(8,924,730)	9,300,732
Cash and short term investments, beginning of year		11,294,485	1,993,753
Cash and short term investments, end of year		2,369,755	11,294,485
Cash provided from (used in) operations is derived as follows:			
Net loss before Government reimbursement		(8,482,118)	(8,619,065)
Add (deduct):	Depreciation	8,043,199	7,535,687
	Amortization and gain on sale of bonds	(401,127)	(410,539)
	Gain on sale of fixed assets	(112,143)	-
	(Increase) decrease in accounts receivable	(2,343,245)	1,240,255
	Increase in material, supplies and prepaids	(4,940,072)	(535,533)
	Increase in accounts payable	2,305,182	1,860,897
	Amortization of deferred revenue	(174,868)	(155,032)
	Increase in deferred pension charge	(2,694,724)	-
Cash provided from (used in) operations		(8,799,916)	916,670

See accompanying schedules and notes to consolidated financial statements.

Ontario Northland Transportation Commission
SCHEDULE OF INVESTMENT IN PROPERTY
as at December 31, 1987

SCHEDULE 1

		1987 $	1986 $
Rail	Roadway	109,514,298	106,018,697
	Buildings	20,675,531	15,043,687
	Equipment	40,673,625	40,732,326
Telecommunications		55,353,894	54,809,295
Buses		2,315,162	2,315,162
Boats		927,413	927,413
norOntair	aircraft	15,542,700	15,542,700
	other	3,940,188	2,010,106
Remote North power and communications		166,127	278,298
Star Transfer Limited	vehicles	1,881,825	2,414,213
	other	987,118	960,647
The Owen Sound Transportation Company, Limited	vessel	9,898,933	9,880,765
	other	380,938	395,158
Gross investment in property		262,257,752	251,328,467
Less accumulated depreciation		100,936,803	93,763,881
Net investment in property		161,320,949	157,564,586
Under construction		15,193,027	16,507,602
		176,513,976	174,072,188

See accompanying schedules and notes to consolidated financial statements.

Ontario Northland Transportation Commission
SCHEDULE OF GOVERNMENT REIMBURSEMENT
for the year ended December 31, 1987

SCHEDULE 2

		1987 $	1986 $
From Province of Ontario	Cochrane - Moosonee branch line	8,410,509	8,328,400
	Main line passenger train	5,750,070	5,630,200
	Northlander (note 4)	3,921,904	5,899,400
	Air services - norOntair	4,573,597	5,766,426
	Moosonee ferry	34,468	42,706
		22,690,548	25,667,132
The Owen Sound Transportation Company, Limited		67,387	727,973
Total Provincial Government reimbursement		22,757,935	26,395,105
Federal Government reimbursement (note 4)		2,016,000	-
Total Government reimbursement (note 4)		24,773,935	26,395,105

See accompanying schedules and notes to consolidated financial statements.

Ontario Northland Transportation Commission
SCHEDULE OF COMMERCIAL OPERATIONS
for the year ended December 31, 1987

SCHEDULE 3

		1987 $	1986 $
Rail Freight Services	Revenue	44,309,711	45,350,731
	Expenditures	40,885,360	41,440,896
	Income from operations	3,424,351	3,909,835
Telecommunications	Revenue (note 6)	36,084,265	38,430,574
	Expenditures (note 8)	28,418,696	25,580,035
	Income from operations	7,665,569	12,850,539
Bus Services	Revenue	3,862,927	3,792,432
	Expenditures	4,050,776	4,356,428
	Loss from operations	(187,849)	(563,996)
Transport / Express Services	Revenue	5,457,548	5,034,911
	Expenditures	6,225,265	6,432,614
	Loss from operations	(767,717)	(1,397,703)
Marine Services (North Bay)	Revenue	312,457	303,025
	Expenditures	489,144	463,532
	Loss from operations	(176,687)	(160,507)
Tourist Facilities (Hannah Bay)	Revenue	152,120	140,867
	Expenditures	126,167	110,566
	Income from operations	25,953	30,301
Remote North Power	Revenue	106,271	109,348
	Expenditures	94,922	129,781
	Income (loss) from operations	11,349	(20,433)
Total Commercial Operations	Operating revenues	90,285,299	93,161,888
	Operating expenditures	80,290,330	78,513,852
	Income from operations	9,994,969	14,648,036

See accompanying schedules and notes to consolidated financial statements.

Ontario Northland Transportation Commission
SCHEDULE OF NON-COMMERCIAL OPERATIONS
for the year ended December 31, 1987

SCHEDULE 4

		1987 $	1986 $
Rail Passenger Services	Revenue	5,116,233	4,773,336
	Expenditures	22,546,520	22,652,767
	Loss from operations	17,430,287	17,879,431
	Government reimbursement	20,098,483	19,858,000
	Net gain from operations	2,668,196	1,978,569
Air Services (norOntair)	Revenue	6,154,203	5,169,903
	Expenditures	10,712,083	10,936,329
	Loss from operations	4,557,880	5,766,426
	Government reimbursement	4,573,597	5,766,426
	Net gain from operations	15,717	-
Marine Services (Owen Sound)	Revenue	4,226,501	3,914,678
	Expenditures	4,293,888	4,642,651
	Loss from operations	67,387	727,973
	Government reimbursement	67,387	727,973
		-	-
Marine Services (Moosonee)	Revenue	98,713	70,988
	Expenditures	133,181	113,694
	Loss from operations	34,468	42,706
	Government reimbursement	34,468	42,706
		-	-
Total Non-Commercial Operations	Operating revenues	15,595,650	13,928,905
	Operating expenditures	37,685,672	38,345,441
	Loss from operations	22,090,022	24,416,536
	Government reimbursement	24,773,935	26,395,105
	Net gain from operations	2,683,913	1,978,569

See accompanying schedules and notes to consolidated financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

These consolidated financial statements are prepared in accordance with generally accepted accounting principles. They include the accounts of the Commission and its wholly-owned subsidiaries, Star Transfer Limited and The Owen Sound Transportation Company, Limited.

(b) Materials and supplies

With the exception of used rail, all materials and supplies are shown at cost. Used rail is shown at estimated utility value.

(c) Investment in property and depreciation

Fixed assets are stated at acquisition cost.

Depreciation is calculated on a straight-line basis over the estimated service lives of the assets with the exception of vehicles which are depreciated at thirty per cent per annum on the diminishing balance basis. Depreciation generally is based on asset balances at the beginning of the year.

The rates used for railway properties are as authorized by the Canadian Transport Commission.

The estimated service lives used for principal categories of assets are as follows:

Road - main line and branches	20 to 200 years
Railway diesel locomotives	25 years
Railway cars	33 years
Vessel	30 years
Telecommunications equipment	15 years
Aircraft	10 years
Boats	20 years

The Province of Ontario reimburses the Commission for the costs of certain fixed assets purchased for use in operations designated as non-commercial by the Province. The Commission records these assets at their original cost together with an offsetting credit to Contributed Surplus. Annual depreciation on these fixed assets is recorded as a reduction to Contributed Surplus.

(d) Income taxes

As Crown Corporations of the Province of Ontario, the Commission and its wholly-owned subsidiaries are exempt from income taxes and accordingly no tax provision is reflected in operations.

2. PENSION PLAN

The Commission is the trustee for its contributory pension plan which covers all permanent staff.

Effective January 1, 1987 the Commission prospectively adopted the new recommendations of the Canadian Institute of Chartered Accountants on accounting for pension expenses and obligations. In accordance with these recommendations the Commission charged to 1987 pension expense its share, $403,000, of the net cost of benefits earned by employees during the year. In previous years the Commission had charged to pension expense the amount of funding it provided to the pension plan (1986 - $5,392,574).

In 1987 the Commission funded the amount of $3,097,724. The excess, $2,694,724, of the funded amount over the net cost of benefits earned is recorded as a Deferred Pension Charge on the Balance Sheet.

The actuarial valuation prepared for accounting purposes as at December 31, 1987 disclosed a surplus of $4,883,000, representing the excess of plan assets of $174,856,000 over accrual pension benefits of $169,973,000. This valuation assumed an expected rate of return on plan assets of 7½ per cent and projected pay increases of 5½ per cent.

3. SELF-INSURANCE

The Commission follows the policy of self-insuring for damages from rolling stock derailments and for cargo damage. Annual contributions to the self-insurance fund consist of a $100,000 premium paid by the Commission in addition to investment income earned on fund assets.

4. GOVERNMENT REIMBURSEMENT

In accordance with the Memorandum of Understanding between the Commission and the Ministry of Northern Development and Mines, certain operations of the Commission have been designated as non-commercial and receive annual operating subsidies, the details of which appear on Schedule 2.

The subsidy amount for the non-commercial rail operations, which consist of the Cochrane-Moosonee branch line and main line passenger train services, allows the Commisson to earn an annual rate of return equal to the lesser of 9.325 per cent or the actual rate of return earned on the total of the Commission's commercial operations for the same year. For all other non-commercial operations shown on Schedule 2, the subsidies equal the operating losses for the year. A portion of the subsidy for the operating loss of the weekday passenger train service between North Bay and Toronto is received from the National Transportation Agency of Canada under section 261 of the Railway Act. This subsidy was received directly by the Province of Ontario in prior years.

5. DEFERRED REVENUE

In 1985, the Commission received $1,740,000 as full settlement for revenue lost through the rerouting of certain long distance telephone traffic. This amount is being amortized to income over the eight remaining years of the original agreement.

6. TELECOMMUNICATIONS REVENUE AGREEMENTS

The Commission has revenue-sharing agreements with Bell Canada and Northern Telephone Limited, subsidiaries of Bell Canada Enterprises Inc. These revenue-sharing agreements may be terminated by either party after giving 180 days and 60 days prior notice, respectively. Approximately 74 per cent (1986 - 78 per cent) of telecommunications revenues depend on these agreements.

7. DUE FROM CONTRIBUTORY PENSION FUND

As of December 31, 1987 the Commission has paid $7,583,410 towards the costs of construction of a senior citizens' apartment building having an estimated total cost of $9.4 million. These costs are being borne by the Commission until construction is completed in early 1988 and the property becomes an investment of the Fund.

8. PAYMENT TO NORTHERN TELEPHONE LIMITED

Under an agreement dated September 29, 1986, the Commission paid $3,000,000 during 1987, to Northern Telephone Limited, to cover a portion of the cost of modernizing that company's telecommunications equipment.

9. COMPARATIVE FIGURES

Prior year's figures have been reclassified where necessary to conform to the current year's presentation.

To the Ontario Northland Transportation Commission
and to the Minister of Northern Development.

I have examined the consolidated balance sheet of the Ontario Northland Transportation Commission as at December 31, 1987 and the consolidated statements of income, contributed surplus, retained income and changes in financial position of the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these consolidated financial statements present fairly the financial position of the Commission as at December 31,1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, except for the change in accounting for pension expense, as explained in note 2, on a basis consistent with that of the preceding year.

D.F. Archer

Toronto, Ontario,
May 13, 1988.

D.F. Archer, F.C.A.,
Provincial Auditor.

Ontario Northland Transportation Commission
CONTRIBUTORY PENSION FUND
STATEMENT OF CHANGES IN FUND BALANCE
for the year ended December 31, 1987

		1987 $	1986 $
Receipts	Contributions		
	Employees	2,042,077	1,996,871
	Commission		
	Current service and supplementary benefits	2,057,146	2,019,557
	Payment toward unfunded liability (note 2)	1,124,232	3,394,652
		5,223,455	7,411,080
	Income from investments		
	Interest and dividends	17,394,142	16,330,233
	Net gain on disposal	1,113,684	3,015,088
		18,507,826	19,345,321
		23,731,281	26,756,401
Disbursements	Pensions paid directly to pensioners	8,719,425	7,760,852
	Refunds of employee's contributions and interest	231,557	222,175
		8,950,982	7,983,027
Increase in the fund for the year		14,780,299	18,773,374
Fund balance, beginning of year		161,558,030	142,784,656
Fund balance, end of year		176,338,329	161,558,030
Consisting of:	Assets		
	Cash and short term investments, at cost	8,706,112	22,162,896
	Stocks, at cost (market value $11,933,475; 1986 - $6,896,940)	12,742,371	6,963,190
	Accounts receivable	471,851	506,696
	Bonds, at cost (market value $153,744,574; 1986 - $142,150,680)	154,417,995	131,925,248
		176,338,329	161,558,030

See accompanying notes to financial statement.

Approved on behalf of the Board:

J.W. Spooner
J.W. Spooner
Chairman

P.A. Dyment
P.A. Dyment
General Manager

Ontario Northland Transportation Commission
CONTRIBUTORY PENSION FUND
NOTES TO FINANCIAL STATEMENT
December 31, 1987

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

This statement has been prepared on the cash basis of accounting, except for contributions which have been recorded on an accrual basis.

(b) Administration expense

The cost of administration is borne by the Ontario Northland Transportation Commission.

2. UNFUNDED LIABILITY

Based on the latest triennial acturarial valuation dated December 31, 1984, the Commission's Contributory Pension Fund had an unfunded liability of $16,937,364. This amount was comprised of the following:

Initial unfunded liability as of January 1, 1965	$19,443,107
Actuarial surplus identified at December 31, 1984	(2,505,743)
	$16,937,364

The Commission and its subsidiaries made interest payments of $1,124,232 during 1987 (1986 - $1,185,615) into the Fund in order to prevent an increase in the unfunded liability. In addition, the Commission made a special contribution of $2,209,037 in 1986 into the Fund. The impact of this special payment on the unfunded liability will be reflected in the next actuarial valuation.

3. INVESTMENT IN APARTMENT COMPLEX

As of December 31, 1987, the Commission paid $7,583,410 towards the costs of construction of a senior citizens' apartment building having an estimated total cost of $9.4 million. These costs are being borne by the Commission until construction is completed in early 1988 and the property becomes an investment of the Fund.

To the Ontario Northland Transportation Commission
and to the Minister of Northern Development.

I have examined the statement of changes in fund balance of the Ontario Northland Transportation Commission Contributory Pension Fund for the year ended December 31, 1987. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, this financial statement presents fairly the assets of the Fund as at December 31, 1987 and its receipts and disbursements for the year then ended in accordance with the basis of accounting described in note 1a, applied on a basis consistent with that of the preceding year.

D.F. Archer

Toronto, Ontario
May 13, 1988.

D.F. Archer, F.C.A.,
Provincial Auditor.